



CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

ALTERNATIVE INVESTMENT MANAGEMENT PROGRAM

QUARTERLY REVIEW

EXECUTIVE SUMMARY

*Quarter ended
March 31, 2004*

TABLE OF CONTENTS

Section	Page
A. AIM PROGRAM - OVERALL PORTFOLIO.....	1
Portfolio Summary	1
Performance	2
Portfolio Activity	2
B. MARKET OVERVIEW	3
C. PORTFOLIO OVERVIEW	5
Portfolio Diversification – By Strategy	5
Portfolio Geographic Diversification	6
Portfolio Company Diversification by Industry	7
California Focus	8
D. AUTHORIZED COMMITMENTS.....	9
E. JOINT PROGRAMS.....	10
F. SIGNIFICANT EVENTS/ MATERIAL EXCEPTIONS TO POLICY	10

TABLE OF CONTENTS (Continued)

Page

TABLES

Table 1 - Summary of AIM Portfolio	1
Table 2 - Amount Committed by Portfolio Strategy	5
Table 3 - Portfolio Company Distribution by Industry	7
Table 4 - California-Based Portfolio Diversification by Industry	8
Table 5 - Summary of Capital Commitments and Contributions	9

FIGURES

Figure 1 – AIM Program Cumulative Cash Flows Since Inception	2
Figure 2 – AIM Program Cumulative Distributions Since Inception	2
Figure 3 – Private Equity Funds Raised	3
Figure 4 – Private Equity Dollars Invested.....	4
Figure 5 – AIM Program – Portfolio Diversification by Strategy	5
Figure 6 – AIM Program – Portfolio Diversification by Geographic Location.....	6
Figure 7 – Portfolio Company Diversification by Industry	7

I. ALTERNATIVE INVESTMENT MANAGEMENT PROGRAM (AIM)

A. AIM PROGRAM - OVERALL PORTFOLIO

This quarterly review has been prepared by The PrivateEdge Group ("PEG") at State Street Corporation and Performance Reporting Unit Staff, based on cash flow, valuation and activity data generated by PEG, Grove Street Advisors ("GSA"), and various AIM Program External Resources. Specific highlights of the portfolio are given below.

Portfolio Summary

- As of March 31, 2004, the AIM Program had 382 active commitments that totaled \$20.6 billion. Commitments to exited investments totaled \$1.6 billion, bringing since inception commitments to \$22.2 billion.
- Since inception, the AIM Program has made contributions of \$14.2 billion and received distributions of \$9.6 billion. Of the \$9.6 billion in distributions, \$5.5 billion represents realized gains, income and dividends. As the portfolio matures and distributions grow, the Program is becoming self-sustaining.
- Due to the young relative age of the AIM portfolio, a large amount of the committed capital has not been called. At March 31, 2004, 37% of the active capital commitments, or \$7.5 billion, remained unfunded.

SUMMARY OF AIM PORTFOLIO SINCE INCEPTION (MARCH 1990) THROUGH MARCH 31, 2004 (US\$ IN MILLIONS)

	Number of Commitments ⁽¹⁾	Capital Committed	Capital Contributed ⁽²⁾	Reported Value ⁽³⁾	Distributions		Investment Multiple
					Return of Capital	Realized Gain ⁽⁴⁾	
Total Active Commitments⁽⁵⁾	382	\$20,614.5	\$13,084.4	\$8,244.9	\$3,216.9	\$4,588.4	1.2x
Total Exited Commitments⁽⁶⁾	28	--	\$1,128.1	--	\$892.5	\$941.4	1.6x

⁽¹⁾ Represents all authorized commitments as of March 31, 2004, including those commitments that have been authorized but not yet funded.

⁽²⁾ Includes fees in excess of committed capital.

⁽³⁾ Based on values reported by the general partners as of March 31, 2004.

⁽⁴⁾ Realized gains include interest, dividends, gains and losses distributed by the general partners in addition to interest paid by CalPERS for participation in subsequent closings of certain investments.

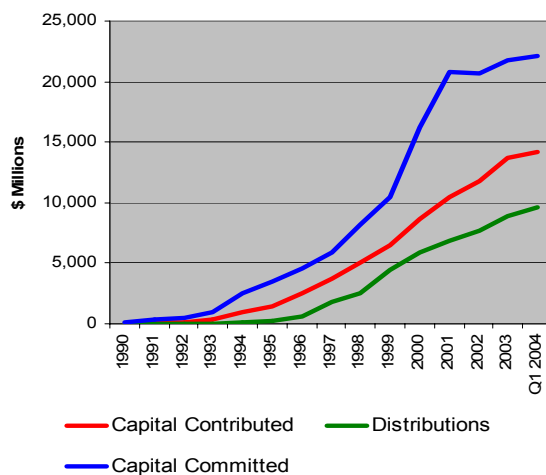
⁽⁵⁾ An active commitment refers to an investment that has not reached the end of its legal term.

⁽⁶⁾ An exited commitment is defined either as a commitment that has ended in accordance with the terms of the partnership agreement or a commitment in which the limited partners have chosen to end prematurely due to unforeseen circumstances.

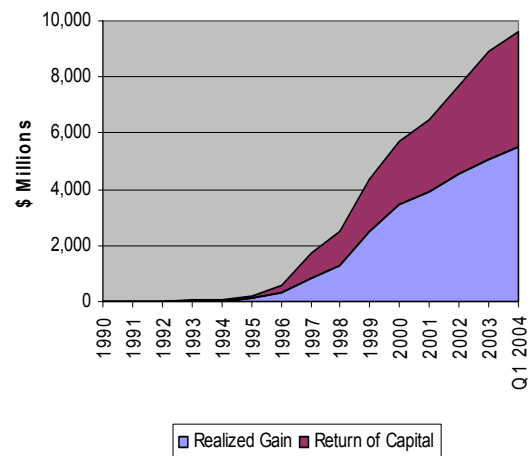
Performance

- Fully realized investments have provided a since inception return of 19.1%. This represents a 1.6x return of contributed capital.
- As of March 31, 2004, the weighted average age of all of the current investments in the AIM portfolio was 3.9 years. Consequently, a large portion of the portfolio is in the early stage of its investment life, when payment of fees has not been offset by young investments that are held at cost. This is known as the J-Curve effect.
- To address the young age of the partnership portfolio, CalPERS adopted a short-term benchmark, the Venture Economics Custom Young Fund Universe. The benchmark measures performance of the AIM partnerships in the first five years of life against a similarly aged universe of Venture Economics data. As of March 31, 2004, the AIM young fund net internal rate of return ("IRR") was 1.7%, which exceeded the preliminary estimate of the Custom Young Fund Universe median return of (6.7%) by 830 basis points. The AIM Program is displaying solid returns for a young portfolio.
- Since inception to March 31 2004, the AIM Program generated a net IRR of 10.0%. At March 31, 2004, the public market ten-year rolling average return for the CalPERS' Custom Wilshire 2500 Index was 10.5%. Whereas the public markets have been recovering over the past few quarters, there is typically a lag in the valuations in the private market relative to the public markets.

**AIM PROGRAM CUMULATIVE
CASH FLOW SINCE INCEPTION**



**AIM PROGRAM CASH DISTRIBUTIONS
SINCE INCEPTION**



Portfolio Activity

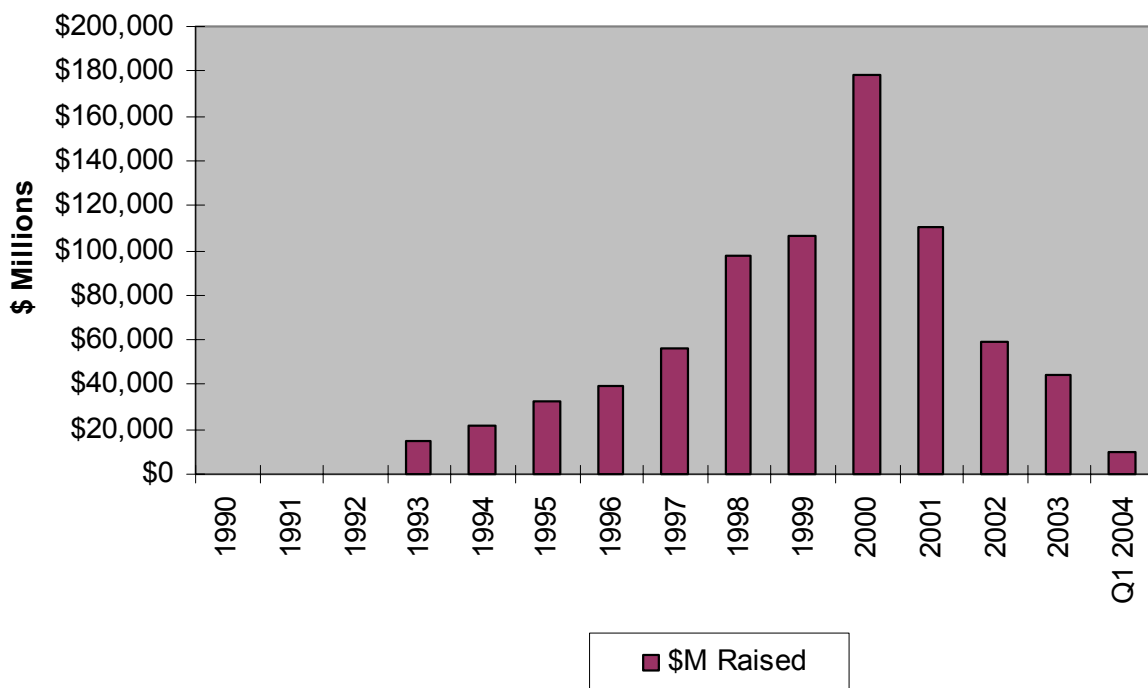
- Nine new commitments were authorized during the first quarter of 2004 for a total of \$400.7 million.
- During the first quarter of 2004 the AIM Program received 74 investment opportunities. During the same period, GSA reviewed 111 investment opportunities on behalf of CEV I, II and III. Both the AIM Program and GSA may have reviewed some of the same opportunities.
- During the quarter, the AIM Program contributed \$538.9 million to and received distributions of \$752.0 million from the underlying portfolio. Of the \$752.0 million in distributions, \$442.1 million represents income and realized gains. Over the past year, the AIM Program contributed \$1.8 billion and received distributions of \$1.8 billion. Of the \$1.8 billion received, \$9.1 million represents income and realized gain.

B. MARKET OVERVIEW

Market

- According to the Private Equity Analyst, \$9.6 billion was committed to 44 funds during the first three months of 2004. The commitment pace is up from that of 2003 when \$4.1 billion was committed to 18 funds. Venture capital fundraising was up 60% from 2003 with \$2.9 billion committed in 2004. Buyout fundraising was up 19% from 2003 with \$2.5 billion committed in 2004.

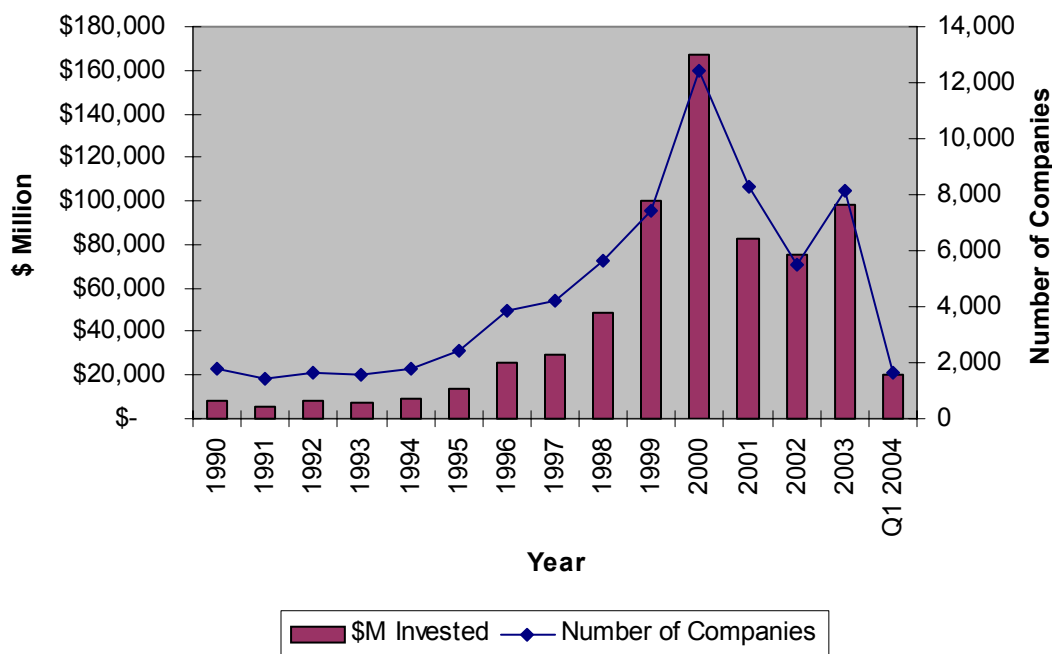
Funds Raised (All Private Equity)



Source: Private Equity Analyst

- Deal activity for all private equity during the first three months of 2004 decreased in both the dollar amount and the number of companies receiving funding compared to 2003. According to Venture Economics, 1,608 companies received \$20.3 billion in funding in the first three months of 2004, compared with 1,979 companies that received \$25.1 billion in the first three months of 2003.
- In 2004, venture capital activity decreased in both the dollar amount and the number of companies receiving funding. According to Venture Economics, 1,404 companies received \$8.8 billion in venture funding in the first three months of 2004 compared with 1,746 companies that received \$9.6 billion for the same period a year ago. During 2004, buyout activity decreased in both the dollar amount and the number of companies receiving funding. According to Venture Economics, 471 companies received \$13.2 billion in buyout funding in the first three months of 2004, compared with 593 companies that received \$18.8 billion for the first three months of 2003.⁽⁸⁾

Dollars Invested (All Private Equity)



Source: Venture Economics

⁽⁸⁾ According to Venture Economics, certain investments meet the definitions for both Venture and Buyout categories and are included in the total for each category. For the purposes of determining the Total Private Equity investments for the quarter, these investments are included only once. As such, the sum of Venture and Buyout categories exceeds the Total Private Equity figures for the quarter by the amounts of the investments that meet both Venture and Buyout definitions.

C. PORTFOLIO OVERVIEW

Portfolio Diversification – By Strategy

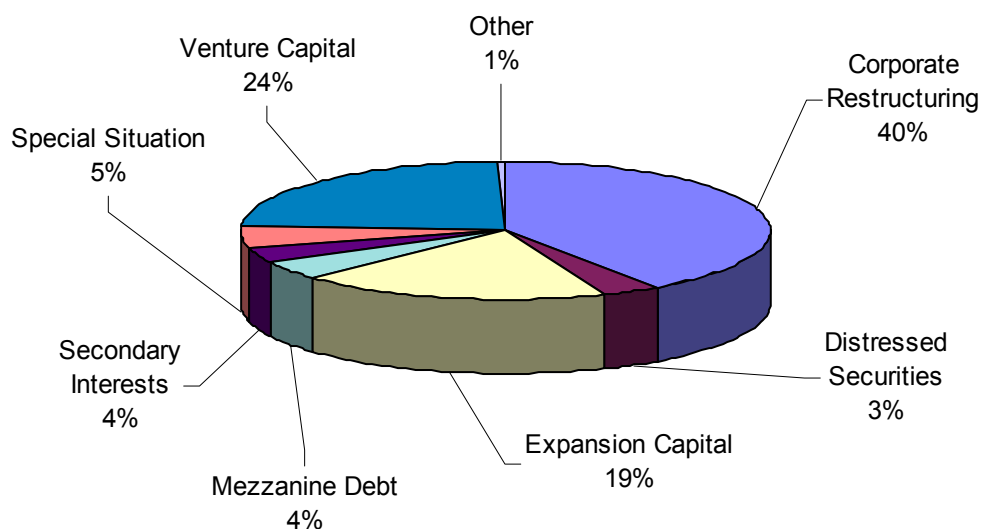
The AIM Program invests in all types of private equity and is well diversified. The current commitments are generally consistent with the diversification within the private equity marketplace. Thus, a majority of the active AIM Program commitments are to Corporate Restructuring, Venture Capital and Expansion Capital.

ACTIVE COMMITMENTS BY PORTFOLIO STRATEGY (US\$MILLION)

	<i>Active Commitments</i>	<i>Contributions</i>	<i>Reported Value</i>	<i>DISTRIBUTIONS</i>	
				<i>Return of Capital</i>	<i>Realized Gain⁽⁹⁾</i>
Corporate Restructuring	\$8,315.5	\$5,264.1	\$3,626.7	\$1,392.4	\$2,251.2
Distressed Securities	\$755.0	\$512.4	\$384.4	\$189.4	\$235.7
Expansion Capital	\$3,932.1	\$2,621.8	\$1,463.3	\$608.3	\$776.4
Mezzanine Debt	\$840.6	\$642.4	\$348.3	\$153.2	\$173.4
Secondary Interests	\$767.3	\$569.4	\$309.3	\$385.3	\$68.5
Special Situation	\$1,041.2	\$615.1	\$428.4	\$157.3	\$191.8
Venture Capital	\$4,848.0	\$2,756.8	\$1,583.5	\$306.2	\$883.6
Other	\$114.8	\$102.4	\$101.0	\$24.8	\$7.8
Total	\$20,614.5	\$13,084.4	\$8,244.9	\$3,216.9	\$4,588.4

⁽⁹⁾ Realized gains include interest, dividends and gains distributed by the general partners.

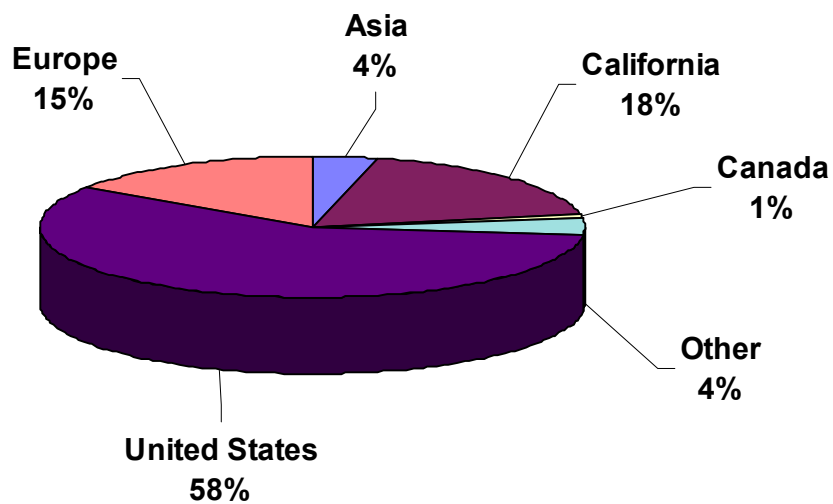
AIM Program - Portfolio Diversification by Strategy As A Percentage of Active Commitments As of March 31, 2004



Portfolio Geographic Diversification

As of March 31, 2004, CalPERS' AIM portfolio was well diversified by geographic region. By reported market value, 18% of the investments were in companies with their primary locations within California and 58% of the investments were in non-California domestic areas. International portfolio companies represented 24% of the total reported market value of all portfolio companies.

**Portfolio Diversification by Geographic Location
As Measured by CalPERS' Market Value Exposure
As of March 31, 2004**



Portfolio Company Diversification by Industry

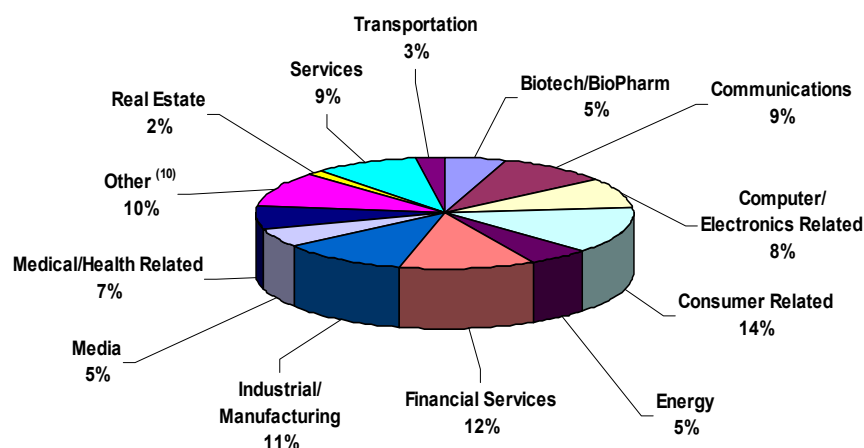
As of March 31, 2004, the CalPERS AIM portfolio was broadly diversified by industry. The table below outlines the current reported value of the portfolio companies held in the AIM portfolio. Within the overall portfolio, the largest segments were consumer-related, financial services and industrial/manufacturing.

PORTFOLIO DIVERSIFICATION BY INDUSTRY AS OF MARCH 31, 2004

Industry	Reported Value (US\$ MILLIONS)
Biotechnology/BioPharma	\$ 407.0
Communications	733.1
Computer/Electronics -Related	644.1
Consumer-Related	1,059.0
Energy	394.9
Financial Services	912.6
Industrial/Manufacturing	837.3
Media	422.8
Medical/Health-Related	527.2
Other ⁽¹⁰⁾	761.3
Real Estate	121.8
Services	673.7
Transportation	197.6
Total	\$7,692.5

⁽¹⁰⁾ Includes CalPERS' investments held through fund-of-funds.

Portfolio Diversification by Industry As Measured by CalPERS' Market Value Exposure As of March 31, 2004



California Focus

As of March 31, 2004, the AIM Program had \$8.2 billion in commitments that were either headquartered or had a major presence in California. Commitments to funds that focus primarily on investments in California were \$1.6 billion. In addition, many AIM Program partnerships actively make investments in California. Currently, California-based companies represent 18% of the reported market value of the AIM portfolio.

CALIFORNIA-BASED PORTFOLIO DIVERSIFICATION BY INDUSTRY AS OF MARCH 31, 2004

Industry	Reported Value (US\$ IN MILLIONS)
Biotechnology/BioPharma	\$ 191.5
Communications	85.8
Computer/Electronics Related	259.8
Consumer-Related	196.7
Energy	4.5
Financial Services	157.6
Industrial Products/Manufacturing	26.6
Media	63.2
Medical/Health-Related	165.1
Other ⁽¹¹⁾	55.1
Real Estate	54.4
Services	92.7
Transportation	32.2
Total	\$ 1,385.3

⁽¹¹⁾ Includes CalPERS' investments held through fund-of-funds.

The AIM Program includes a California-oriented component that is designed to take advantage of a number of factors conducive to targeted investment activity within the state: (i) the unique size characteristics of the California economy; (ii) the existence of a "capital gap" for certain business segments within the state; and (iii) the ability to construct a diversified array of investment vehicles that reflects the state's large number of business entities and the wide range of development cycles that they represent.

D. AUTHORIZED COMMITMENTS

During the first quarter of 2004, the AIM Program authorized nine new investments, totaling \$400.7 million in new commitments.

Commitments and Contributions Since Inception

Since inception to March 31, 2004, CalPERS has contributed capital of \$14.2 billion. As expected, the earlier vintage year partnerships have the highest deployment percentage as it typically takes some time for each partnership to call down the full amount of committed capital. The total capital committed by vintage year is presented in the table below.

**SUMMARY OF CAPITAL COMMITMENTS AND CONTRIBUTIONS
(US\$ IN MILLIONS)**

<i>Vintage Year</i>	<i>Capital Committed</i>	<i>Capital Contributed</i>	<i>Reported Value</i>	<i>Return of Capital</i>	<i>Realized Gain⁽¹²⁾</i>	<i>Investment Multiple</i>
1990	\$125.3	\$121.9	\$5.9	\$118.9	\$169.1	2.4
1991	171.7	179.6	0.7	149.9	356.6	2.8
1992	160.0	156.6	13.4	101.7	219.3	2.1
1993	563.0	560.0	129.9	392.0	481.7	1.8
1994	1,494.2	1,402.1	397.4	777.8	1,236.1	1.7
1995	1,197.9	1,125.1	343.0	517.7	881.0	1.6
1996	1,155.9	1,129.7	292.0	506.4	677.6	1.3
1997	1,111.9	1,070.7	658.2	220.6	507.9	1.3
1998	2,202.4	2,076.7	1,274.3	591.5	480.7	1.1
1999	1,331.3	1,113.0	731.5	247.1	136.6	1.0
2000	4,150.5	2,353.0	1,700.4	247.1	211.4	N/M
2001	4,787.4	2,247.4	2,049.1	218.3	103.1	N/M
2002	1,075.4	291.9	252.8	16.5	62.3	N/M
2003	1,514.5	366.2	382.9	4.0	6.5	N/M
2004	325.0	18.6	13.2	0.0	0.0	N/M
Authorized⁽¹³⁾	\$805.7	-	-	-	-	N/A
Total	\$22,172.1	\$14,212.5	\$8,244.9	\$4,109.5	\$5,529.9	1.3

⁽¹²⁾ Realized gains include interest, dividends, gains and losses distributed by the general partners in addition to interest paid by CalPERS for participation in subsequent closings of certain investments.

⁽¹³⁾ These commitments have been authorized subject to satisfactory final due diligence, negotiation of investment terms and conditions and completion of all legal documents, including opinions of counsel regarding the preservation of CalPERS' limited liability status, and no material changes to the investment opportunity.

E. JOINT PROGRAMS

Joint AIM/Real Estate Technology Program

In May 2000, the CalPERS Investment Committee approved the creation of the \$500.0 million Joint Real Estate/AIM Technology Program. Although the funds for this program are allocated through the Real Estate unit, AIM is involved in monitoring the program. As of March 31, 2004 contributions totaled \$390.9 million.

Absolute Return Strategy (ARS) - Joint AIM/Public Markets Hedge Fund Program

In October 2000, the CalPERS Investment Committee approved a \$1 billion joint AIM/Public Markets hedge fund program. Although the funds for this program are allocated through the Public Equities unit, AIM is actively involved with the management of the program. At March 31, 2004, CalPERS had invested \$580.0 million in 14 hedge funds. CalPERS is currently working to include additional advisors to the ARS program.

F. SIGNIFICANT EVENTS/ MATERIAL EXCEPTIONS TO POLICY (AS REPORTED BY THE AIM PROGRAM)

Significant Events

- None to report for the quarter ended March 31, 2004.

Material Exceptions to Policy

None to report for the quarter ended March 31, 2004.